

AUDIT SUMMARY

Our audit of Christopher Newport University for the year ended June 30, 1998, found:

- the accompanying financial statements are presented fairly, in all material respects;
- no internal control matters that we consider material weaknesses; and
- no instances of noncompliance with applicable laws and regulations.

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UNIVERSITY OFFICIALS

June 15, 1999

The Honorable James S. Gilmore, III
Governor of Virginia

The Honorable Richard J. Holland
Chairman, Joint Legislative Audit and Review Commission

The Board of Visitors
Christopher Newport University

We have audited the accounts and records of **Christopher Newport University** as of and for the year ended June 30, 1998, and submit herewith our complete reports on the financial statements and on compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of Christopher Newport University as of June 30, 1998, and the related statements of changes in fund balances and current fund revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Christopher Newport University as of June 30, 1998, and the changes in fund balances and current fund revenues, expenditures, and other changes for the year then ended, in conformity with generally accepted accounting principles.

Our audit was performed for the purpose of forming an opinion on the financial statements of Christopher Newport University taken as a whole. The accompanying "Schedule of Auxiliary Enterprises - Revenues and Expenditures" is presented for the purpose of additional analysis and is not a required part of the financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects in relation to the financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Christopher Newport University as of and for the year ended June 30, 1998, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is for the information of the Governor and General Assembly, Board of Visitors, audit committee, management, and the people of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

CHRISTOPHER NEWPORT UNIVERSITY
BALANCE SHEET
As of June 30, 1998

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds			Investment in Plant	Agency Funds	Total (Memorandum Only)
	Unrestricted	Restricted			Unexpended	Renewals and Replacements	Retirement of Indebtedness			
ASSETS										
Cash (Note 4)	\$ 3,087,987	\$ 500,075	\$ 167,959	\$ 1,155,421	\$ 860,038	\$ 3,048,764	\$ 1,225,568	\$ -	\$ 161,045	\$ 10,206,857
Investments (Note 5)	1,001,026	-	-	1,455,428	-	-	-	-	-	2,456,454
Investments with Treasurer of Virginia	-	-	-	-	-	474,964	-	-	-	474,964
Accounts receivable (Net of allowance for doubtful accounts of \$30,949)	322,299	170,854	23,602	-	-	-	-	-	5,348	522,103
Notes receivable (Net of allowance for doubtful accounts of \$137,426)	-	-	1,176,974	-	-	-	-	-	-	1,176,974
Inventories	331,120	-	-	-	-	-	-	-	-	331,120
Due from other funds	-	-	150	-	132,298	-	-	-	-	132,448
Prepaid expenses	158,519	-	-	-	-	-	-	-	-	158,519
Land	-	-	-	-	-	-	-	3,920,939	-	3,920,939
Buildings	-	-	-	-	-	-	-	41,533,055	-	41,533,055
Equipment	-	-	-	-	-	-	-	6,551,364	-	6,551,364
Library books	-	-	-	-	-	-	-	5,616,456	-	5,616,456
Construction in progress	-	-	-	-	-	-	-	5,366,700	-	5,366,700
Equity in equipment trust fund	-	-	-	-	-	-	-	527,945	-	527,945
Total assets	\$ 4,900,951	\$ 670,929	\$ 1,368,685	\$ 2,610,849	\$ 992,336	\$ 3,523,728	\$ 1,225,568	\$ 63,516,459	\$ 166,393	\$ 78,975,898
LIABILITIES AND FUND BALANCES										
Accounts payable and accrued liabilities	\$ 404,304	\$ 15,703	\$ 185	\$ -	\$ 176,010	\$ 52,274	\$ -	\$ -	\$ 32,553	\$ 681,029
Accrued wages	1,214,240	84,584	-	-	-	4,384	-	-	-	1,303,208
Accrued leave	576,256	-	-	-	-	2,583	-	-	-	578,839
Deferred revenue	559,313	-	-	-	-	-	-	-	-	559,313
Retainage payable	-	-	-	-	-	7,810	-	-	-	7,810
Notes payable (Note 6)	-	-	-	-	-	-	-	19,229	-	19,229
Bonds payable (Note 6)	-	-	-	-	-	-	-	11,632,748	-	11,632,748
Leases payable (Note 9)	-	-	-	-	-	-	-	1,100,473	-	1,100,473
Due to other funds	150	-	-	-	-	132,298	-	-	-	132,448
Funds held in custody for others	-	-	-	-	-	-	-	-	133,840	133,840
Obligations under security lending	-	-	-	-	-	474,964	-	-	-	474,964
Fund balances:										
Unrestricted current funds	2,146,688	-	-	-	-	-	-	-	-	2,146,688
Restricted current funds	-	570,642	-	-	-	-	-	-	-	570,642
Loan funds, U.S. Government grants	-	-	971,616	-	-	-	-	-	-	971,616
Loan funds, University - Restricted	-	-	396,884	-	-	-	-	-	-	396,884
Endowment funds	-	-	-	2,204,870	-	-	-	-	-	2,204,870
Quasi-endowment	-	-	-	405,979	-	-	-	-	-	405,979
Unexpended plant funds	-	-	-	-	816,326	-	-	-	-	816,326
Renewals and replacements	-	-	-	-	-	2,849,415	-	-	-	2,849,415
Retirement of indebtedness	-	-	-	-	-	-	1,225,568	-	-	1,225,568
Net investment in plant	-	-	-	-	-	-	-	50,764,009	-	50,764,009
Total liabilities and fund balances	\$ 4,900,951	\$ 670,929	\$ 1,368,685	\$ 2,610,849	\$ 992,336	\$ 3,523,728	\$ 1,225,568	\$ 63,516,459	\$ 166,393	\$ 78,975,898

The accompanying notes to financial statements are an integral part of this statement.

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 1998

	Current Funds		Loan Funds	Endowment and Similar Funds	Plant Funds			
	Unrestricted	Restricted			Unexpended	Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
Revenues and other additions:								
Unrestricted current funds revenues	\$ 33,362,950	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State appropriation - Restricted	-	1,410,582	-	-	1,001,499	117,908	200,397	-
Student tuition and fees	-	-	-	-	-	1,792,574	943,436	-
Federal grants and contracts - Restricted	-	3,485,819	95,493	-	-	-	-	-
State grants and contracts - Restricted	-	224,551	-	-	-	-	-	-
Local grants and contracts - Restricted	-	122,186	-	-	18,553	-	-	-
Private gifts, grants and contracts - Restricted	-	412,785	1,635	273,516	-	-	-	-
Investment income - Restricted	-	105,183	-	19,014	-	49,513	100,554	-
Realized gain on investments	-	18,468	-	10,065	-	-	-	-
Increase in fair value of investments	-	-	-	4,039	-	-	-	-
Security lending proceeds	-	-	-	-	-	27,940	-	-
Interest on loans receivable	-	-	26,406	-	-	-	-	-
Expended for plant facilities (Including \$878,073 charged to current funds)	-	-	-	-	-	-	-	3,528,054
Retirement of indebtedness	-	-	-	-	-	-	-	624,834
Other sources	-	4,714	118,504	-	-	-	-	-
Total revenues and other additions	33,362,950	5,784,288	242,038	306,634	1,020,052	1,987,935	1,244,387	4,152,888
Expenditures and other deductions:								
Educational and general expenditures	26,442,304	5,471,863	-	-	-	-	-	-
Auxiliary enterprises expenditures	6,640,635	-	-	-	-	-	-	-
Indirect cost recovered	-	117,522	-	-	-	-	-	-
Loan cancellations, assignments and write-offs	-	-	19,681	-	-	-	-	-
Administrative and collection costs	-	-	19,699	-	-	-	-	-
Expended for plant facilities (Including \$567,085 not capitalized)	-	-	-	-	2,341,535	875,531	-	-
Security lending payments	-	-	-	-	-	27,328	-	-
Retirement of indebtedness	-	-	-	-	-	-	624,834	-
Interest on indebtedness	-	-	-	-	-	-	597,972	-
Disposal of plant assets	-	-	-	-	-	-	-	671,194
Refunded to grantors	-	7,587	-	-	-	-	-	-
Reversion to the general fund of the Commonwealth	-	-	-	-	-	12,999	-	-
Loss on refinancing (Note 7)	-	-	-	-	-	-	-	170,463
Total expenditures and other deductions	33,082,939	5,596,972	39,380	-	2,341,535	915,858	1,222,806	841,657
Transfers among funds - Additions/(Deductions):								
Mandatory:								
Debt service	(22,235)	-	-	-	-	-	22,235	-
Allocations of work-study program	93,328	(93,328)	-	-	-	-	-	-
Matching grant	(31,831)	-	31,831	-	-	-	-	-
Unexpended restricted income to endowment	-	(19,738)	-	19,738	-	-	-	-
Nonmandatory - (To)/from other funds	(310,727)	142,207	-	(160,000)	1,133,577	(805,057)	-	-
Total transfers among funds	(271,465)	29,141	31,831	(140,262)	1,133,577	(805,057)	22,235	-
Net increase (decrease) for the year	8,546	216,457	234,489	166,372	(187,906)	267,020	43,816	3,311,231
Fund balances at beginning of year as restated (Note 3)	2,138,142	354,185	1,134,011	2,444,477	1,004,232	2,582,395	1,181,752	47,452,778
Fund balances at end of year	\$ 2,146,688	\$ 570,642	\$ 1,368,500	\$ 2,610,849	\$ 816,326	\$ 2,849,415	\$ 1,225,568	\$ 50,764,009

The accompanying notes to financial statements are an integral part of this statement.

CHRISTOPHER NEWPORT UNIVERSITY
STATEMENT OF CURRENT FUNDS REVENUES,
EXPENDITURES, AND OTHER CHANGES
For the Year Ended June 30, 1998

	Unrestricted	Restricted	Total
Revenues:			
Tuition and fees	\$ 10,987,077	\$ -	\$10,987,077
State appropriations (Note 11)	14,825,134	1,347,479	16,172,613
Federal grants and contracts	-	3,374,774	3,374,774
State grants and contracts	-	178,393	178,393
Local grants and contracts	-	106,258	106,258
Private gifts, grants, and contracts	-	328,896	328,896
Investment income	-	100,273	100,273
Sales and services of educational departments	8,290	-	8,290
Sales and services of auxiliary enterprises	6,926,143	-	6,926,143
Other sources	616,306	148,856	765,162
Total current revenues	33,362,950	5,584,929	38,947,879
Expenditures and mandatory transfers:			
Educational and general:			
Instruction	13,482,887	72,390	13,555,277
Research	-	1,335,008	1,335,008
Public service	104,932	58,512	163,444
Academic support	3,628,181	23,364	3,651,545
Student services	2,402,502	68,425	2,470,927
Institutional support	3,981,499	14,673	3,996,172
Operation and maintenance of plant	2,724,751	3,235	2,727,986
Scholarships and fellowships	117,552	3,896,256	4,013,808
Educational and general expenditures	26,442,304	5,471,863	31,914,167
Mandatory transfers:			
Debt service	19,477	-	19,477
Allocation of work-study	(91,541)	91,541	-
Matching grant	31,831	-	31,831
Unexpended restricted income to endowment	-	19,738	19,738
Total educational and general	26,402,071	5,583,142	31,985,213
Auxiliary enterprises:			
Operating expenditures	6,640,635	-	6,640,635
Mandatory transfers:			
Debt service	2,758	-	2,758
Allocation of work-study	(1,787)	1,787	-
Total auxiliary enterprises	6,641,606	1,787	6,643,393
Total expenditures and mandatory transfers	33,043,677	5,584,929	38,628,606
Other transfers and additions/(deductions):			
Excess of restricted receipts over transfers to revenue	-	81,837	81,837
Refunded to grantors	-	(7,587)	(7,587)
Nonmandatory transfers	(310,727)	142,207	(168,520)
Net increase (decrease) in fund balances	\$ 8,546	\$ 216,457	\$ 225,003

The accompanying notes to financial statements are an integral part of this statement.

CHRISTOPHER NEWPORT UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 1998

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Christopher Newport University have been prepared in accordance with generally accepted accounting principles for colleges and universities. The significant accounting policies followed by the University are as follows:

A. Reporting Entity

Christopher Newport University is an institution of higher education located in Newport News, Virginia. The University operates under policy guidelines established by the State Council of Higher Education in Virginia and is governed by a Board of Visitors.

A separate report is prepared for the Commonwealth of Virginia which includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The University is a component unit of the Commonwealth of Virginia and is included in the general purpose financial statements of the Commonwealth.

B. Basis of Accounting

The University utilizes the accrual basis of accounting in accordance with the American Institute of Certified Public Accountants' audit guide, Audits of Colleges and Universities. The accompanying financial statements include no provision for the depreciation of plant assets.

The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenues and expenses.

C. Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources, the accounts are maintained in accordance with the principles of "fund accounting." Resources are classified for accounting and reporting purposes into funds which may be used for activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the Board of Visitors. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds, and are in contrast with unrestricted funds over which the governing board retains full control and use in achieving any of its institutional purposes, subject only to State laws and regulations governing such funds.

Unrestricted revenue is accounted for in the Current Unrestricted Fund. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Current Restricted Funds are reported as revenues and expenditures when expended for current operation purposes.

A summary of fund group definitions is as follows:

Current Funds - Current fund balances are separated into those which are restricted by donors and those which are unrestricted. Restricted funds may only be expended for the purpose indicated by the donor or grantor whereas unrestricted funds are available for current operations at the discretion of the University.

Loan Funds - Loan funds represent funds which are limited by the terms of their donors or by action of the Board of Visitors for the purpose of making loans to students and faculty/staff.

Endowment and Similar Funds - Endowment and similar funds record the usage of income from moneys subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. Quasi-endowment funds have been established by the governing board for the same purpose as endowment funds, and any portion of quasi-endowment may be expended.

Plant Funds - Plant funds are divided into four groups: Unexpended Plant, Renewals and Replacements, Retirement of Indebtedness, and Investment in Plant. Unexpended plant funds represent funds which were specified by external sources or designated by the Board of Visitors for the acquisition and construction of physical properties. Renewal and replacement funds represent funds for the renovation and replacement of physical properties. Retirement of indebtedness funds represent resources held for the retirement of both principal and interest on debt. Investment in Plant represents the capitalized value of physical property owned by the University, less associated long-term debt.

Agency Funds - Agency funds reflect funds held in custody for others by the University.

D. Accrued Leave

Accrued leave represents the amount of annual, sick, and compensatory leave earned but not taken as of June 30, 1998. The amount represents all earned annual, sick, and compensatory leave payable under the Commonwealth of Virginia's leave pay-out policy and the University Handbook, for all Administrators holding faculty appointments, upon employment termination. The applicable share of employer related taxes payable on the eventual termination payments is also included.

E. Investments

Investments are stated at fair market value.

Realized and unrealized gains and losses arising from the sale, collection or other disposition of investments, market fluctuations, and other noncash assets are accounted for in the fund which owns such assets, except income derived from investments of endowment and similar funds, whose income is accounted for in the fund to which it is restricted or, if unrestricted, as revenues in current unrestricted funds.

F. Inventory

Inventories are valued at the lower of cost (first-in, first-out basis) or market. The inventory held by the University consists of expendable supplies and items for resale. The cost of inventories is recorded as expenditures when consumed or sold rather than when purchased.

G. Investment in Plant

Plant assets are stated at cost, or if donated, at fair market value at the date of donation. Construction in progress is capitalized as expended and reflected in investments in plant. Expenditures for renewals and replacements are capitalized only to the extent that such expenditures represent long-term improvements to properties. Current fund expenditures for equipment are capitalized when the unit acquisition cost is \$5,000 or greater and the estimated useful life is two years or more. The accompanying financial statements include no provision for depreciation of plant assets.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of moveable equipment and library books, (2) mandatory transfers, in the case of required provisions for debt amortization and interest and equipment renewal and replacement; and (3) transfers of a nonmandatory nature for all other cases. Plant assets, at the time of disposal, revert to the Commonwealth of Virginia for disposition. Proceeds, if any, are returned to the University.

H. Deferred Revenue

Deferred revenue represents monies received but not earned as of June 30, 1998. This is primarily composed of student tuition and fees received in advance of the academic term.

I. Total Columns

Total columns on the financial statements are captioned "Total - Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

2. AFFILIATED ORGANIZATIONS

The financial statements do not include the assets, liabilities and fund balances of the Christopher Newport University Educational Foundation, Inc. or the Christopher Newport University Real Estate Foundation, Inc. The purpose of the Christopher Newport University Educational Foundation is to solicit, receive and administer gifts of real and personal property for the continuing support of the University. The purpose of the Christopher Newport University Real Estate Foundation is to solicit, receive, hold inter vivos, and administer gifts of real and personal property for the continuing support of the University. The Foundations have not been audited.

The following is a condensed summary of the financial position, which the Foundation has submitted to the University at June 30, 1998:

	<u>Educational Foundation</u>	<u>Real Estate Foundation</u>
Assets	<u>\$6,028,369</u>	<u>\$3,142,771</u>
Liabilities	\$ 726,562	\$3,180,953
Fund balances	<u>5,301,807</u>	<u>(38,182)</u>
Total liabilities and fund balances	<u>\$6,028,369</u>	<u>\$3,142,771</u>
Revenues	<u>\$2,919,607</u>	<u>\$ 589,263</u>
Expenditures	<u>\$1,451,772</u>	<u>\$ 633,549</u>

3. RESTATEMENT OF FUND BALANCES

Certain fund balances reported at June 30, 1997 have been restated to reflect adjustments related to GASB 31 reporting. The adjustments reflect the change in reporting the value of investments from cost to fair market value.

Endowment Funds:

Fund balance at June 30, 1997, as originally reported	\$2,399,328
Restatement for GASB 31	<u>45,149</u>
Fund Balance at July 1, 1997, as adjusted	<u>\$2,444,477</u>

4. CASH

All state funds of the University are held by the Treasurer of Virginia pursuant to Section 2.1-177, et seq., Code of Virginia, who is responsible for the collection, disbursement, custody and investment of state funds. Each fund's equity in pooled state funds is reported as "Cash" on the accompanying balance sheet and is not categorized as to credit risk. Certain deposits also are held by the University. Deposits with banks and savings institutions are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359, et seq., Code of Virginia. Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50 percent of excess deposits to a collateral pool in the name of the State Treasury Board. Saving institutions are required to collateralize 100 percent of deposits in excess of FSLIC limits.

5. INVESTMENTS

Statutes authorize the investment of funds held by the University in obligations of the Commonwealth, federal government, other states or political subdivisions thereof, Virginia political subdivisions, the International Bank for Reconstruction and Development, the Asian Development Bank, and the African Development Bank. In addition, the University may invest in prime quality commercial paper rated prime 1 by Moody's Investment Service or A-1 by Standard and Poor's Incorporated, overnight term or open repurchase agreements and money market funds comprised of investments which are otherwise legal investments of the University. The University's investments at June 30, 1998 are comprised of mutual, money market funds, totaling \$2,456,454 and are not required to be categorized by credit risk per GASB Statement 3.

Collateral held for securities lending represent the University's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

6. LONG-TERM DEBT

A summary of changes in long-term indebtedness follows:

	Balance July 1, <u>1 9 9 7</u>	<u>Additions</u>	<u>Retirements</u>	Balance June 30, <u>1 9 9 8</u>
Bonds payable	\$11,888,349	\$3,430,463	\$3,686,064	\$11,632,748
Notes payable	24,571	-	5,342	19,229
Leases payable	<u>776,275</u>	<u>517,626</u>	<u>193,428</u>	<u>1,100,473</u>
Total	<u>\$12,689,195</u>	<u>\$3,948,089</u>	<u>\$3,884,834</u>	<u>\$12,752,450</u>

Long-term debt of the University at June 30, 1998, consists of the following:

	Balance at <u>June 30, 1998</u>
<u>Bonds Payable</u>	
Dormitory Revenue Bonds, Series 1992 issued \$7,970,000 (reduced to \$1,175,000 due to refinancing in March 1998); balance payable in annual installments of \$150,000 to \$195,000 with interest of 5.3% to 5.8% payable semiannually, final installment due in 2004	\$ 1,030,000
Campus Center Phase II Revenue Bonds, Refunding Series June 1993, issued \$463,037; balance payable in annual installments varying from \$388 to \$225,388 with interest of 4.3% to 4.9% payable semiannually, final installment due in 2004	227,328
Track Revenue Bonds, Refunding Series June 1993, issued \$79,865; balance payable in annual installments varying from \$60 to \$35,060 with interest of 4.3% to 4.9% payable semiannually, final installment due in 2004	35,362
Track Revenue Bonds, Refunding Series December 1993, issued \$185,483; balance payable in annual installments varying from \$28,251 to \$32,710 with interest of 4.0% to 4.5% payable semiannually, final installment due in 2003	151,639
Campus Center Phase II Revenue Bond, Refunding Series December 1993, issued \$1,117,349; balance payable in annual installments varying from \$170,612 to \$186,916 with interest of 4.0% to 4.5% payable semiannually, final installment due in 2003	904,277

Dormitory Revenue Bond, Refunding Series December 1993, issued \$3,570,000; balance payable in annual installments varying from \$10,000 to \$555,000 with interest of 4.0% to 5.125% payable semiannually, final installment due in 2022	3,545,000
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Dormitory Revenue Bond, Series December 1994, issued \$2,435,000 (reduced to \$755,000 in January 1996 and subsequently to \$520,000 in March 1998 due to refinancing); balance payable in annual installments varying from \$50,000 to \$70,000 with interest of 6.0% to 6.1% payable semiannually, final installment due in 2006	475,000
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Dormitory Revenue Bond, Refunding Series 1996, issued \$1,891,844; balance payable in annual installments varying from \$9,363 to \$175,000 with interest of 4.75% to 5.125% payable semiannually, final installment due in 2021	1,863,039
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Dormitory Revenue Bond, Refunding Series 1998, issued \$3,260,396; balance payable in annual installments varying from \$24,796 to \$338,903 with interest of 3.5% to 5.0% payable semiannually, final installment due in 2015	3,232,542
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Dormitory Revenue Bond, Refunding Series 1998, issued \$170,067; balance payable in annual installments varying from \$1,506 to \$80,000 with interest of 3.5% to 5.0% payable semiannually, final installment due in 2008	<u>168,561</u>
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Total bonds payable	<u>11,632,748</u>
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Notes Payable

Pitney Bowes, Postage mailing system; issued \$23,050, payable in quarterly installments varying of \$1,611 including interest of 13.42%, final installment due in 2002	<u>19,229</u>
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Total Notes Payable	<u>19,229</u>
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Total Leases Payable (Note 9)	<u>1,100,473</u>
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Total Long-Term Indebtedness	<u>\$12,752,450</u>
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A summary of future principal and interest obligations under long-term debt as of June 30, 1998, follows:

<u>Year Ending June 30,</u>	<u>Bonds Payable</u>	<u>Notes Payable</u>	<u>Capital Leases</u>
1999	\$ 1,016,324	\$ 6,444	\$ 306,919
2000	1,013,583	6,444	260,530
2001	1,008,992	6,444	279,860
2002	998,306	4,833	257,781
2003	996,478	-	127,830
Later years	<u>14,265,276</u>	<u>-</u>	<u>-</u>
Total	\$19,298,959	\$24,165	\$1,232,920
Less: Interest	<u>7,666,211</u>	<u>4,936</u>	<u>132,447</u>
Net	<u>\$11,632,748</u>	<u>\$19,229</u>	<u>\$1,100,473</u>

7. BOND DEFEASANCE

On February 26, 1998, the Commonwealth of Virginia issued \$99,930,000 in General Obligations Refunding Bonds, Series 1998 with interest rates ranging from 3.5 percent to 5.0 percent. The sale of these bonds enabled the University to advance refund \$155,000 of Revenue Refunding Bond, Series 1994, with interest rates ranging from 6.25 percent to 6.4 percent used to finance the construction of the Residence Hall and \$3,105,000 of the Revenue Refunding Bond, Series 1992, with interest ranging from 5.9 percent to 6.0 percent used to finance the Residence Hall.

The net proceeds from the sale of the bonds were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the refunded bonds. Although the defeasance resulted in an accounting loss of \$170,463, the refunding will reduce total debt service payments over the next eighteen years by \$526,334 and provide an economic gain of \$327,784. As a result, these bonds are considered defeased and the University's portion of the liability has been removed from Investment in Plant on the financial statements.

The amount and percentage of debt defeased relating to the University is as follows:

	<u>Debt Outstanding</u>	<u>Amount Defeased</u>	<u>Percentage Defeased</u>
Revenue Refunding Bonds, Series 1992	\$4,280,000	\$3,105,000	73%
Revenue Refunding Bonds, Series 1994	675,000	155,000	23%

8. DEFEASANCE OF DEBT – PRIOR YEARS

During fiscal years 1994 and 1996, certain 1992C and 1994 General Obligation Bonds were defeased by the University. The net proceeds from the sale of these bonds were placed in an irrevocable trust with an escrow agent to provide for all future debt service on the refunded bonds. Accordingly, the trust account assets and the related liability for the defeased bonds are not reflected in the University's financial statements. At June 30, 1998, the following amount of defeased bonds were outstanding:

	Balance at <u>June 30, 1998</u>
Series 1992C	\$6,405,000
Series 1994	<u>1,820,000</u>
	<u>\$8,225,000</u>

9. LEASES PAYABLE

Christopher Newport University has entered into a capital lease agreement with the Virginia College Building Authority (VCBA). The agreement is payable over a five-year period with interest of 3.50 percent to 5.35 percent payable semiannually, principal outstanding totaled \$1,100,473.

Under the terms of the lease, the University is authorized to purchase instructional equipment from an approved list of equipment items in an amount not to exceed the principal amount of the lease. Payment for such purchases are to be reimbursed to the University by the VCBA from bond proceeds issued by the VCBA for such purposes. The General Assembly has appropriated from the General Fund of the Commonwealth, an amount sufficient to repay principal and interest, for the general fund portion of the lease payment, and the University is required to pay the nongeneral fund portion of the lease payment.

10. COMMITMENTS

At June 30, 1998, the University was committed to construction contracts totaling approximately \$5,076,624 of which \$2,218,227 had been recorded as construction in progress.

The University is a party to several operating lease agreements for a period of one year which generally have renewal options. Rental expense under operating leases was \$370,917 for the year ended June 30, 1998. Commitments for subsequent fiscal years are as follows:

Year Ending <u>June 30,</u>	
1999	\$
	469,776
2000	467,531
2001	467,531
2002	<u>467,531</u>

Total \$1,872,369

11. STATE APPROPRIATIONS-CURRENT FUNDS-UNRESTRICTED

The Appropriation Act specifies that unexpended appropriations from the General Fund of the Commonwealth shall revert, except as specifically provided by the General Assembly, at the end of a biennium. For years ending at the middle of the biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the University for disbursement.

During the year ended June 30, 1998, the following changes were made to the University's original appropriation, including supplemental appropriations received in accordance with the Appropriation Act of 1997, Chapter 924, Acts of Assembly:

Appropriation	\$14,745,798
Supplemental appropriations:	
Salary regrades	137,528
Health Care premiums	41,647
VRS rate change	29,397
VIVA libraries	4,580
Mandatory budget reductions:	
Lag pay plan	(11,979)
VCBA debt obligation	(82,267)
Employee benefits	(2,680)
Telecommunications	(4,446)
Computer services	(572)
Personnel	(15,233)
IHRIS development	<u>(16,639)</u>
Adjusted Appropriations	<u>\$14,825,134</u>

12. STATE STUDENT LOAN FUNDS

The University discontinued making loans from the Commonwealth of Virginia State Student Loan Program in 1986. The sole activity in this account is the repayment of loans outstanding. At June 30, 1998, total loans outstanding were \$480 of which \$48 was deemed uncollectible, in accordance with Section 23-38.10:4 of the Code of Virginia as amended. Summarized below is the fund activity of the Loan Fund for the year ended June 30, 1998:

Fund balance July 1, 1997	\$54,792
Interest and loan cancellation reimbursements	<u>77</u>
Fund balance June 30, 1998	<u>\$54,869</u>

13. RETIREMENT AND PENSION PLANS

Employees of the University are employees of the Commonwealth. Substantially all full-time classified salaried employees of the University participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). Information relating to this plan is available at the statewide level only in the Commonwealth of Virginia's Comprehensive Annual Financial Report

(CAFR). The Commonwealth, not the University, has overall responsibility for contributions to this plan.

Full-time faculty and certain administrative staff are eligible to participate in other retirement plans. These are fixed contribution programs where the retirement benefits received are based upon the employer's (10.4 percent) contributions, plus interest and dividends. Individual contracts issued under the plans provide for full and immediate vesting of both the University's and the employees' contributions. Total pension costs under this plan were approximately \$612,974 for the year ended June 30, 1998. Contributions to other retirement plans were calculated using the base salary totaling \$5,893,980 for the year ended June 30, 1998.

14. POST-EMPLOYMENT BENEFITS

The University participates in the VRS administered statewide group life insurance program which provides post-employment life insurance benefits to eligible retired and terminated employees of the Commonwealth. The Commonwealth also provides health care credits against the monthly health insurance premiums of its retirees who have at least 15 years of service and participate in the state health plan. Information related to these plans is available at the statewide level in the Commonwealth's Comprehensive Annual Financial Report (CAFR).

15. YEAR 2000 READINESS

Christopher Newport University recognizes the significance of the Century Date Change and the impact Year 2000 may have on its information technology and business infrastructure. The University is working in conjunction with the Commonwealth's legislatively authorized Virginia Century Date Change Office to help address the Year 2000 issue.

The University has identified its administrative computer systems as mission critical and has subjected those systems and equipment to the following stages of work to address the Year 2000 issues:

- Awareness stage – Establishing a budget and project plan for dealing with the Year 2000 issue.
- Assessment stage – Identifying the systems and components for which Year 2000 compliance work is needed.
- Remediation stage – Making changes to systems and equipment.
- Validation/Testing stage – Validating and testing the changes that were made during the remediation stage.

As of May 1999, the University has completed each of these stages for all components of their mission critical systems. Cost estimates for all of the University Year 2000 readiness projects are \$2,413,406. Actual expenditures as of May 1999 were \$1,846,842.

The University is also addressing general Year 2000 issues not associated with the new administrative systems. The University has identified non-mission critical systems, non-traditional computing systems, systems dependent upon embedded microchips, data exchange requirements, and

the University's relationships with outside agencies and vendors. Replacement products for non-mission critical systems have been reviewed.

The University's contingency plan is for each functional area to operate using a manual contingency plan. The plan was tested in May 1999.

The State Comptroller maintains the Commonwealth's Accounting and Reporting System, which the University uses to reconcile their financial accounting system. Information relating to the Year 2000 readiness for the Commonwealth's systems is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

16. SURETY BOND

The Commonwealth of Virginia, through its Department of General Services, Division of Risk Management, maintains self-insurance programs. The employees of the University are covered under the Commonwealth of Virginia, Faithful Performance of Duty Bond, Self-Insurance Plan. All employees are bonded to \$500,000, for any one event or interrelated series of events, or to the position limits set in the Code of Virginia, whichever is higher.

CHRISTOPHER NEWPORT UNIVERSITY
SCHEDULE OF AUXILIARY ENTERPRISES -
REVENUES AND EXPENDITURES
For the Year Ended June 30, 1998

	Auxiliary Support	Intercollegiate Athletics	Bookstore	Residential Life	Dining Services	Total
Revenues:						
Student fees	\$1,049,745	\$ 1,101,649	\$ -	\$ 684,515	\$ 496,236	\$3,332,145
Sales and services	129,590	29,497	2,194,526	121,811	876,011	3,351,435
Other income	44,406	23,046	73,767	45,988	55,356	242,563
Total revenues	1,223,741	1,154,192	2,268,293	852,314	1,427,603	6,926,143
Cost of sales	-	-	1,582,405	-	577,147	2,159,552
Net revenues	1,223,741	1,154,192	685,888	852,314	850,456	4,766,591
Expenses of operation:						
Personal services	798,764	677,281	239,983	165,246	586,198	2,467,472
Contractual services	159,855	265,797	40,057	132,387	171,714	769,810
Supplies and materials	54,469	101,870	5,826	42,108	47,909	252,182
Continuous charges and obligations	125,954	118,314	50,251	174,917	162,711	632,147
Equipment	24,333	79,193	18,359	204,101	17,046	343,032
Miscellaneous	118	14,025	1,589	708	-	16,440
Total expenses of operation	1,163,493	1,256,480	356,065	719,467	985,578	4,481,083
Excess (deficiency) of revenues over (under) expenses of operation before transfers	60,248	(102,288)	329,823	132,847	(135,122)	285,508
Transfers:						
Mandatory:						
Debt service	-	-	-	(2,758)	-	(2,758)
Allocation of work-study program	-	1,217	-	570	-	1,787
Nonmandatory:						
(To)/from other funds	-	-	(142,207)	(328,520)	-	(470,727)
Net increase (decrease) in fund balances	60,248	(101,071)	187,616	(197,861)	(135,122)	(186,190)
Fund balances at beginning of year	310,597	50,093	1,342,191	496,316	497,184	2,696,381
Fund balances at end of year	\$ 370,845	\$ (50,978)	\$ 1,529,807	\$ 298,455	\$ 362,062	\$2,510,191

CHRISTOPHER NEWPORT UNIVERSITY
Newport News, Virginia

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